ECONOMIC COMMISSION FOR EUROPE
Timber Committee

FINLAND

September 2009

MARKET STATEMENT

1 GENERAL ECONOMIC TRENDS

In 2008, Finnish GDP increased 1.0 percent. After the beginning of global depression in autumn 2008, Finnish economy has faced a sharp decline in exports and investments. During the second quarter of this year, the export volumes were decreasing almost one third and GDP 9.4 percent in year-to-year terms. The negative signals of Finnish economy have also slowly affected consumer behaviour, and households' precautionary savings have increased considerably.

In 2009, Finnish GDP is expected to decrease 4.5 percent. This decline clearly depicts the Finnish economy's high dependence on exports, which are expected to collapse almost 20 percent with respect to previous year. However, along with the moderate recover and increase in international demand and trade, export volumes are expected to turn to increase again during the end of this year. Also, the recent Finnish business tendency survey and consumer confidence indicator indicate slightly increasing confidence for economic circumstances in the near future, even though the point figures themselves are still in extremely low levels.

Due to the weak final demand, industrial production in Finland will decrease about 12 percent in this year. This implicates that the degree of utilisation of machinery will remain low, and there is not any need for additional investments. Also, according to the business tendency survey, the construction activity in Finland will remain low. In 2009, the total fixed investments are expected to decrease about 12 percent. Increasing unemployment and general economic uncertainty affect also private consumption which is decreasing about one percent in 2009. Public consumption is expected to increase 1.5 percent.

In 2010, along with the slow economic recovery in main export areas in EU, the total exports from Finland are expected to grow 7 percent. Also, the total private consumption is slowly recovering with one percent increase. However, even though the interest rates and consumer prices remain low in 2010, the domestic construction and investment activity will still decrease few percents with respect to 2009. Totally, Finnish GDP in 2010 is expected to grow 2.5 percent.

2 RECENT POLICY MEASURES

Early 2008 the Finnish government decided on a rather extensive investment program for improvement of transport routes important for the forest industries.

The Finnish government has played also an active role in roundwood market by deciding on 50 per cent tax reductions for roundwood sales in 2008 and 2009 and on 25 per cent reduction for the year 2010. In addition, sales related to first thinnings were exempted from taxes during April-August 2008. These measures resulted high peakes in sales at the turn of August September but later the sales levelled off. In 2009, in spite of these incentives, roundwood trade has been going on at exceptionally low level.

Russia's policy aiming at reductions in roundwood exports is having a great impact in Finland. In 2006 to 2008, the export duties levied on the Russian coniferous roundwood were risen several times. Now the duties are EUR 15 per cum and include also birch logs. The killer rise to EUR 50 per cum will be due to January 1, 2010 (but there are doubts about its implementation). In 2009, roundwood imports will be halved from the previous year.

3 MARKET DRIVERS

Weakening demand for forest products in western Europe due to the economical downturn has led to markedly decreased sawn wood prices in both 2008 and 2009. Paper and paperboard prices in euros have slightly rosen in both 2008 and 2009 but no major improvements in price development can be excepted in the near future. Production costs development has been moderate but the low capacity utilisation rate has kept the profitability weak. In the light of weakening profitability during several past years and oversupply situation in West Europe, Finnish forest industry has reacted by cutting capacity in Finland and other countries. Stora Enso and UPM Kymmene have announced of capacity cuts in paper and pulp industry and in 2009 the production is markedly lower than in the previous year. Sawnwood production volumes have also markedly decreased during both 2008 and 2009.

4 DEVELOPMENTS IN FOREST PRODUCTS MARKETS

A. Raw wood

In 2008, the use of industrial roundwood decreased by 12 per cent (to 58 mill. m^3 u.b.) from the previous year. The roundwood procurement decreased somewhat less (-7%) as the roundwood imports in fact increased in view of new big rises of the Russian export duties due to January 1, 2009 (which was then postponed by a year). Imports of roundwood and sawmill chips were 17 million m^3 u.b., of which 60 per cent originated from Russia. The domestic roundwood procurement reached 46 million m^3 u.b.

Compared to the year 2008 Finnish roundwood markets are very much down due to the decreased production in forest industries: -30 percent in sawmilling and -28 percent in paper industry during the first half of 2009. Consequently, softwood log prices in January-August are down by 25 per cent from the previous year. In pulpwood prices the decreases have been somewhat smaller, about 15 per cent over the 2008 prices. The traded volumes are unusually low compared to the year 2008: -68 per cent in sawlogs and -79 per cent in pulpwood during January-August.

In order to foster roundwood trade already in 2008 the Finnish government decided upon related tax exemptions which extends also for the years 2009 and 2010. 50 per cent tax reductions are to be applied to roundwood sales in 2008 and 2009 and 25 per cent reduction to roundwood sales in 2010. These measures stimulated markets to some extent during the second half of the year 2008 but in 2009 the markets have been half dead so far. The industrial production is running at low level and the inventories of industrial wood are still high. The fallen roundwood prices aren't to encourage wood supply neither.

The statistics for the domestic roundwood harvests in January-July 2009 show a 26 per cent decrease from the previous year. During the first half of the year, wood imports run at 55 per cent lower level than in 2008.

Overall, the industrial roundwood consumption in Finland decreases in 2009 by 25 per cent as compared to last year, totalling about 44 mill. m^3 u.b. Domestic roundwood removals will account close to 35 million m^3 in 2009. It is forecast that imports of roundwood and chips will be only 8 million m^3 u.b. which is less than half of the last year's volume.

Roundwood removals in 2010 are expected to be higher (40 mill. m^3) than are estimated for the current year. Removals of coniferous sawlogs and pulpwood will be about 15 and 20 million m^3 u.b., respectively. Imported wood included, the volumes are 16 and 22 million m^3 u.b., respectively. Roundwood imports are expected to keep up the same level than in 2009, assuming new rises in Russian export duties won't be implemented.

B. Wood energy

Wood-based energy accounts for 20% of all energy consumed in Finland and 60% of the Finnish forest industry's energy consumption (black liquor from the pulp industry, tree bark, sawdust, etc.).

Along with industrial roundwood, fuelwood to be used in industrial power plants and district heating plants has become a new type of raw wood. In 2008, 4.0 million m^3s of felling residues, small-sized trees and stumps were used for energy purposes in Finland. This type of fuelwood is mainly logged in spruce-dominated clear-felling areas in coordination with industrial roundwood logging. The logged volumes have been growing but the price fluctuations in GHG emissions trading have their impact. Small stumpage is nowadays paid for forest owners for this type of fuelwood. In addition, household firewood, a part of which consists of felling residues, has maintained its volume (6 mill. m^3s o.b./yr). The

Finnish pellet production is annually about 350 000 tonnes, most of which is exported to Sweden.

C. Certified forest products

About 95 % of Finnish forests, or 22 million hectares, are certified under the national Finnish Forest Certification System (FFCS). The FFCS is endorsed by both Pan-European Forest Certification Council (PEFC) and the Dutch Keurhout Foundation.

Demand for ECO-labelled products is growing. Forest industry companies have acquired certified chain-of-custody systems in order to obtain PEFC-logo usage right. According to the Finnish Forest Certification Council, there are today 115 PEFC logo licence holders among Finnish forest industry firms, trade and distributors. These licenses cover the major share of wood procurement, sawnwood and panels production as well as paper and paperboard production. In addition, 20 logo licences are hold by other actors such as national governing bodies, forest owners and managers.

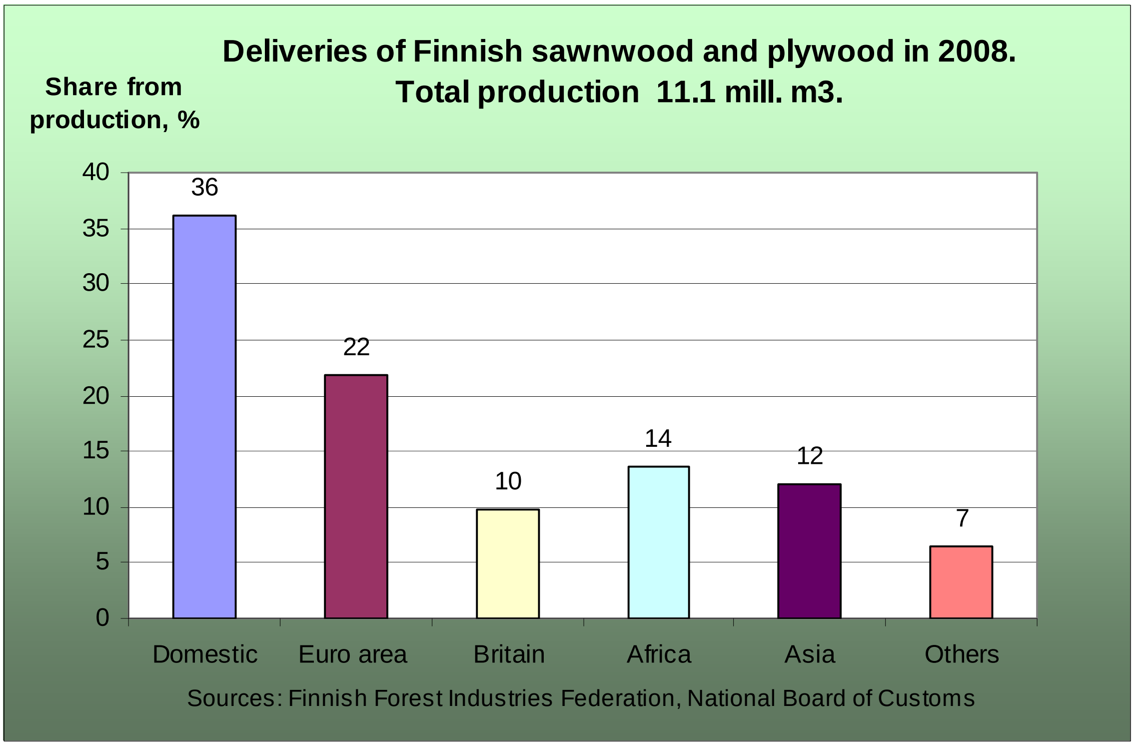
D. Value-added wood products

E. Sawn softwood

Coniferous sawnwood is the main product in Finnish woodworking industry. More than a half of production is exported and about 40 % is domestically consumed. During the last 15 years, the growth in housing construction and repair has boosted considerably domestic sawnwood consumption and per capita figure has increased from 0,5 m^3 in 1995 to 1 m^3 in 2007 (0,8 in 2008).

The main export markets are in western Europe (the UK, France, Germany, the Netherlands, Denmark, Italy and Spain) accounting for about a half of the exports in 2008. Due to increasing competition and overcapacity in West-European sawnwood markets growth of exports in recent years has occurred outside Europe, e.g. to Japan whose share of the Finnish exports was 13 % in 2008 and the share of Africa increased to 25 %.

The second main product is plywood accounting for 24% of the woodworking industry's export value in 2008, while the share of sawnwood was 46%. The rest 30% are shared by particle board, wooden furniture, fibreboard, wooden prefabricated houses, etc. Sawmills integrated with the pulp and paper industry, produce about half of all sawnwood.



Outlook for years 2009 and 2010

According to the forecasts of the Euroconstruct Conference in June 2009, the activity of new residential construction will continually decrease in West Europe during the current year and only small increases in the construction activity are forecast for 2010. For Finland the figures of Statistic Finland show that in January-April 2009 the number of building permits granted for housing construction was about 40% less than the figure for the same period last year. In low-rise housing (accounting for a third of these permits), the drop was 54%. Only small improvements in the activity can be expected for the end of 2009 and for the 2010. The declining construction development have affected Finnish sawnwood consumption that is assumed to fall from the last year's 4,2 million to 2,9 million cubic meters in 2009. For the next year, a 10% growth in the apparent consumption is expected.

The oversupply in the European export markets has continued in 2009 and market prices have been falling until the summer months. Scandinavian and several West European countries' producers' large production curtailments have continued during the first half of 2009 leading to small price increases in the market. In Finland, the production of coniferous sawnwood was about 30% lower in the first half of 2009 compared to the last year. The 2009 production is assumed to be 7.5 million m^3.

The export figures show a similar downward trend as production. In January-June 2009 the drop in exports was 19% compared to the same period last year. Finnish exports showed a declining development to almost all important European and Asian export countries. North Africa was the only market where exports did not fall. Finland lost market shares especially for Sweden, that benefited from weak krona. Although market situation is slightly improving towards the end of the year, the development of exports remain weak. Compared to the year 2008 the exports of sawnwood are expected to fall about 16% in 2009.

In addition to the present production curtailments, Finnish integrates like Stora Enso and Metsäliitto have announced permanent closures of capacity. Capacity closures are planned for Teuva sawmill (beginning of 2009), Tolkkinen (end 2009) and probably Varkaus (end 2010). Kotka sawmill is for sale. These plans concern a production capacity of 0,87 million m^3 per year.

In 2010, the slowly increasing construction activity starts to impact sawnwood consumption creating possibilities for improving market balance. But, in the light of the relatively slow consumption growth the price increases probably remain modest. Production is expected to reach 8.5 million m^3 that is comparable to the production in 1993. Exports are assumed to reach 5.8 million m^3 in 2010.

F. Sawn hardwood

Sawn hardwood is a marginal product in Finnish sawnwood industry with a share of less than 1% of the total sawnwood production.

G. Wood-based panels

Plywood is the most important product in Finnish wood-based panels industry accounting for 75 % of panel production in 2008. The particle board and fibreboard are other products. During the past 10–15 years, plywood industry has invested for new capacity, especially for softwood plywood. The shares of birch-faced and softwood plywood are about 40% and 60%, respectively.

In the European Union, Finland is the main plywood producer with about a third of the total. In the coniferous plywood Finland's share was 44% and in non-coniferous plywood 20% in 2008. Plywood is an export product for Finland and only about 15% of the produtionis domestically consumed.

Contrary to sawnwood or other wood based panels, Europe is a net importer of plywood. Production volumes accounted for about 64% of the apparent consumption in 2008. In general, this is favourable for plywood exporters.

Outlook for years 2009 and 2010

European economic recession and decreasing construction activity have affected plywood demand as well, but the impact came later than for sawnwood. In January-June 2009, the average export price of Finnish plywood decreased 10% compared to the same period last year. At the same time, the drop in the export was about 50%. It was mainly due to the decreased demand for birch-faced plywood. As a result of the weakened market situation also Finnish production volumes went down about 50 %. No essential changes in the market demand are expected for the rest of the 2009.

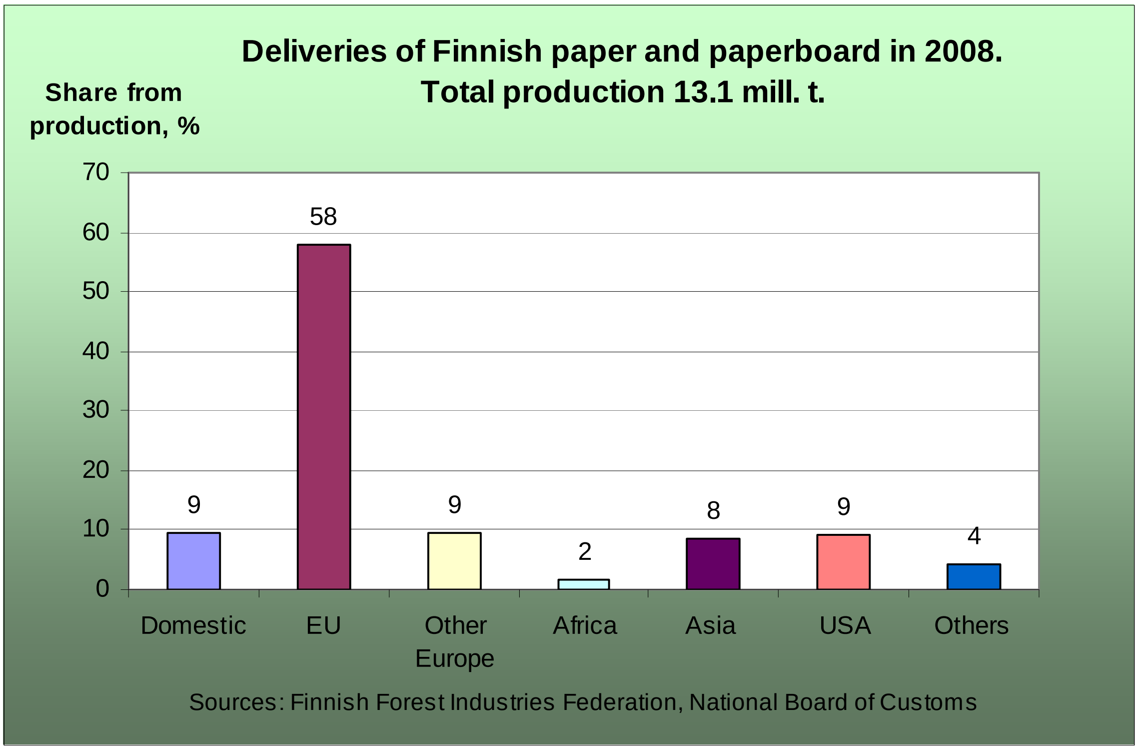
The six largest European customers of Finnish plywood have been Germany, Britain, the Netherlands, Sweden, France and Denmark accounting for the main part of the plywood exports. Of the customer countries outside Europe the Republic of Korea is to be mentioned. In the first half of 2009, Finnish plywood exports have decreased to all these destinations.

Also the Finnish particle board exports have been affected by the economic recession. The already small production went down by almost 40% totalling 250 000 m^3 in 2008. Fibreboard production decreased 13% totalling 110 000 m^3. Further falls in production are expected for 2009. Excluding the present situation, production volumes have been relatively stable in recent years.

In 2010 economic development and construction activity are expected to improve relatively slowly in the export markets. This means that Finnish production remains low, as well. In 2010, plywood production is assumed to rise to 0,9 million cubic meters, which is still about 30% lower than in 2008. However, much uncertainty is related to the production of the birch-faced plywood. The large dependency on Russian birch logs must be compensated by procurement of logs from other sources.

H. Pulp and paper

The Finnish pulp and paper industry´s production and exports decreased roughly by 10 per cent in 2008, compared with the previous year's figures. In paperboard the reductions were smaller, -5 and -2 per cent respectively. However, the export prices of paper and paperboard were slightly on increase due to the successful cuts of overcapacity in many paper grades. Production of paper and paperboard amounted to 13.1 million tonnes, roughly 90 per cent of which were exported. The pulp production amounted to 11.6 million tonnes.



Outlook for years 2009 and 2010

The market outlook for the year 2009 is gloomy and for 2010 somewhat better. The production is down but the export prices are slightly on increase. The profitability of the industry remains low.

In 2009, the production and exports of paper and paperboard are estimated to be 22 per cent lower than in the previous year. In 2010, the production is forecast to amount to 10.7 million tonnes and the exports to 9.7 million tonnes, both being 5 per cent more than in 2009.

I. Carbon markets

A. Economic indicators

Key economic indicators	2008	2009e	2010f
Gross domestic product growth, %	1.0	-4.5	2.5
Consumer price index change, %	4.1	0.0	1.2
Wage and salary earnings change, %	5.6	4.3	3.0
Unemployment rate, %	6.4	8.6	9.4
Current account surplus/GDP, %	2.4	1.0	2.0
Industrial output change, %	0.1	-12.0	5.0
Three month EURIBOR, %	4.6	1.50	2.5

Source: Nordea, Economic Outlook 1.9.2009

B. Production and Trade

1. Forest industry production in Finland

Product	Unit 1000	2008	2009e	2010f
Sawn softwood	cum	9 800	7 500	8 500
Plywood	cum	1 265	750	900
Particle board	cum	250	200	250
Fibreboard	cum	110	100	100
Mechanical pulp	tonnes	4 465	3 500	3 700
Chemical pulp	tonnes	7 159	5 500	5 800
Pulp, total	tonnes	11 624	9 000	9 500
Paper, total	tonnes	10 229	7 800	8 200
Paperboard	tonnes	2 897	2 400	2 500
Paper & Paperboard total	tonnes	13 126	10 200	10 700

Sources: Finnish Forest Industries Federation (2008; wood products 2009, 2010), Finnish Forest Research Institute (pulp and paper 2009, 2010)

2. Exports of Finnish Forest Industry Products

Product	Unit 1000	2008	2009e	2010f
Sawn and planed goods	cum	5 992	5 010	5 810
- Coniferous	cum	5 981	5 000	5 800
Plywood	cum	1 083	600	750
Veneer sheets	cum	62	40	40
Particle board	cum	88	50	60
Fibreboard	cum	53	50	50
Mechanical pulp	tonnes	135	100	100
Chemical pulp	tonnes	2 090	1 400	1 500
Pulp, total	tonnes	2 225	1 500	1 600
Paper, total	tonnes	9 297	7 100	7 500
Paperboard	tonnes	2 599	2 100	2 200
Paper & Paperboard, total	tonnes	11 896	9 200	9 700

Sources: National Board of Customs (2008),
Finnish Forest Industries Federation (wood products 2009, 2010),
Finnish Forest Research Institute (pulp and paper 2009, 2010).

3. Imports of Forest Industry Products

Product	Unit 1000	2008	2009e	2010f
Sawn and planed goods	cum	476	430	550
of which coniferous	cum	430	400	500
Plywood	cum	122	100	100
Veneer sheets	cum	41	23	23
Particle board	cum	63	60	60
Fibreboard	cum	186	150	150
Pulp, total	tonnes	444	300	320
Paper, total	tonnes	239	210	230
Paperboard	tonnes	256	200	220
Paper & Paperboard, total	tonnes	495	410	450

Sources: National Board of Customs (2008),
Finnish Forest Industries Federation (wood products 2009, 2010),
Finnish Forest Research Institute (pulp and paper 2009, 2010).